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USE OF TRAINED INTELLIGENCE ANALYSTSSOURCE IDENTIFICATION Sovetskiye Finansy, Vol VIII, No 8, August 1947.
(FDB Ref Abs 11056 -- Translation specifically requested.)HOW TO CHECK TURNOVER-TAX REPORTS OF ENTERPRISES

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The most important conditions for the fulfillment of the state revenue plan is the timely receipt from enterprises and economic organizations of correct turnover-tax reports and the timely and skilled checking of these reports by state revenue inspectors.

Notwithstanding the exceptional importance of the work, until quite recently many financial agencies and, especially, the state revenue employees were very lenient towards infractions of the regulations for reports; they have not used their right of action against directors and chief accountants of enterprises which compiled incorrect reports or failed to present them in time. In 1946, for instance, financial agencies of the Azerbaijan SSR received 346 annual reports for 1945 and 2,348 monthly reports for 1946 which failed to observe the prescribed time limits. Of the annual reports for 1946, due in January and February 1947, 611 were late.

In the Belorussian SSR the situation is quite unsatisfactory: 42.8 percent of all the annual reports for 1946 and 22 percent of the reports for the first quarter of 1947 were delivered to the financial agencies with considerable delays.

The importance of the damage to the budget caused by violation of the state financial discipline and by negligent financial agencies can be illustrated by the case of the Azerbaijan administration of Glavneftanob (Main Administration of Petroleum Supply): lateness of the January 1946 report delayed the payment of 503,300 rubles of turnover tax for 25 days, the February report delayed 934,700 rubles for 18 days, the June report delayed 364,800 rubles for 56 days, etc.

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The Belu base of Glavparfumer (Main Administration of the Perfume, Cosmetics, Synthetics, and Soap Industry), by presenting its February report late, retained in its turnover 1,314,000 rubles for 28 days, and its August report retained 1,327,200 rubles for 5 days. Financial agencies not only did not bother to enforce regulations for reports, but checked the reports received carelessly and with great delays.

Thus, during the first quarter of 1947 they were late in checking 25 percent of the annual turnover-tax reports for 1946 and 41 percent of the monthly reports for the first quarter of 1947.

Almost the same situation as in checking reports exists in the financial agencies of the Belorussian SSR.

Because of a delay by the Oblfinotdel (Oblast Financial Section) of Nagorno-Karabakh Autonomous Oblast in checking the April 1946 report of Zagotakot (Cattle Procurement) office of this oblast, the additional (doprishislenny) turnover tax, amounting to 140,000 rubles, was paid into the budget after a delay of over 5 months. The payment of the Grodno brewery in Belorussian SSR of large sums of additional turnover tax was late by from 20 to 40 days.

Superficial and, in many cases, inaccurate checking of tax reports by state revenue inspectors is the principal defect in the work of many financial agencies.

The work of financial agencies of the Azerbaydzhan SSR and the Belorussian SSR was audited in the first and second quarter of 1947. Inspectors of the Finance Ministry of the USSR rechecked the reports of some enterprises, previously checked by state revenue inspectors of lower financial agencies. It appeared that for the Azerbaydzhan SSR, for instance, in 12 out of 18 reports checked, a total of 881,900 rubles of tax was to be added, and for the Belorussian SSR, in 21 out of 24 reports, a total of 2,530,000 rubles.

Inspectors of the Finance Ministry of the Azerbaydzhan SSR, after rechecking in 1946 the tax report of 230 enterprises previously checked by inspectors of lower financial agencies, increased the amount of tax for 119 of them by a total of 5,658,000 rubles, and inspectors of the Ministry of Finance of the Belorussian SSR, for 57 reports out of 105, increased the tax by 8,087,000 rubles.

Many even well-qualified inspectors often forget that the checking of tax reports is the final stage in the work of calculation of turnover tax and that, therefore, the final budget accounts are based on this checking.

A major reason for the poor quality of the checking of reports in many financial agencies is the lack of practical instruction from the Administration of State Revenue of the Ministry of Finance of the USSR on the techniques of checking.

Many young state revenue inspectors with insufficient experience use primitive and usually incorrect methods of checking, often waste considerable time checking documents having no connection with the calculation and payment of taxes, and lose sight of the principal object.

What are the most rational means of the preliminary and final checking of turnover-tax reports?

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First of all, it is necessary to point out that the complexity of the system and the special regulations of the turnover tax for the different branches of economy, for different enterprises, and even for different groups of products, preclude recommendation of a method of report checking equally acceptable, with no exceptions, for all enterprises. Therefore, let us consider methods of checking monthly reports for the majority of organizations for which there is no common system for tax payments.

The process of checking tax reports from economic agencies is divided into two stages, the preliminary and the final.

By preliminary checking is understood the checking of accounts performed by state revenue inspectors. This checking must be performed not later than the day following the receipt of a report from an enterprise, before its transmission to the State Revenue Accounting Section.

In preliminary checking the inspector must first of all note whether the established forms for the report have been observed; whether the data have been entered as to which enterprise has presented the report and for which month of the year; whether or not detailed information on the nontaxable turnover is added to the report, and whether the report and its addenda have been signed by the director and the chief accountant.

Next, it is necessary to check that the list of goods or categories subjected to different tax rates is complete and accurate. After this, by direct calculations, the totals of the general turnover, taxable and nontaxable, are checked and identified both with the grand total (column 2) and with the totals by different kinds of goods or categories of goods. In particular, it is necessary to check whether the total of column 6 (all the nontaxable turnover) corresponds to the total of columns 3, 4, and 5; whether the taxable turnover (column 7), which represents the difference between the data of column 2, and column 6, is shown correctly; whether for the given taxpayer, the nontaxable goods are properly classified in accordance with current regulations.

Special attention is to be paid to checking the correctness of tax rates (column 8) and also the correctness of calculations of turnover tax (column 9). For this purpose the state revenue inspector, after ascertaining the correctness of tax rates, must himself calculate the tax on each kind of product or group of products and compute the grand total of the tax.

Finally the turnover side of the account is checked for every index which does not require special explanations.

In the preliminary check the state revenue inspector must make no corrections on the report (crossing out of figures or text, writing in data, etc.) because the report is a document for the quality of which the director of the enterprise and the chief accountant have complete responsibility.

The remarks on discrepancies in figures discovered as a result of the preliminary checking are to be noted at the end of the report, after the signatures of the director and the principal accountant, or on a separate sheet of paper under the following heading: "As a result of the preliminary check of this report it is found necessary to make the following corrections:"

It is sometimes difficult for the state revenue inspector to decide as to different problems which may arise during the preliminary checking of the report. Such problems should be worked out with the chief accountant, by summoning him to the financial agency or, when necessary, by going out to the enterprise itself.

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The final checking of turnover-tax reports is the documentary check, performed directly at the enterprise with bookkeeping materials and original documents on hand.

This check is performed by the inspector not later than one month after receiving the report. In order to organize this work well, at the beginning of the month a schedule of report checks is established for all enterprises attached to each state revenue inspector. It sets in advance the dates for checking each enterprise. The schedule is approved by the director of the financial agency, who is responsible for the control of the carrying out of the schedule.

Before starting the documentary check the state revenue inspector must make preparations for it. He must make up a list of questions to be cleared up on the spot, in the enterprise; he must obtain from the state revenue accountant an extract from the individual account of the enterprise as to the status of its accounts with the budget as of the latest date, as to failures of the enterprise to observe time limits for the payment of taxes, and as to fines imposed for these failures for the month elapsed.

The inspector, upon arrival at the enterprise, must first inform its director of the matters to be checked. The latter must instruct the accounting service to present to the inspector the bookkeeping materials and the original documents for checking. From the director of the enterprise the inspector obtains information on the new kinds of products made by the enterprise, and on all other modifications in the established list of manufactured goods.

The checking of bookkeeping materials and original documents must always be performed in the presence and with direct participation of the chief accountant of the enterprise or his assistant. They must provide the inspector with explanations for all questions that may arise during the checking.

In order to accomplish a better documentary check of the report and save time we recommend the following order for the examination of the account books and original documents.

The checking must start with the examination of the turnover balance (obrotno-bal'dovoy balans) for the month reported on. From this balance the inspector extracts the turnover data from the accounts for realization of goods (the credit side of each "realization" account).

"Realization" (realizatsiya) is the conversion of goods into cash or credit, by sale, consumption within the enterprise, or delivery (otpusk: "release") to other economic agencies, as indicated below.

In state and cooperative enterprises, which in the majority of cases are the payers of turnover tax, the accounts of the balance (scheta balansov) dealing with realization are designated as follows:

1. Realization of production of the enterprise outside the industry
2. Realization of production of the enterprise in capital construction
3. Realization of production of the enterprise in communal housing and in other needs of the enterprise not connected with production
4. Delivery of products of the enterprise to Glavk (main administration) of a given branch of the economy
5. Realization of commodities for mass consumption derived from waste products

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6. Realization of products by public dining-room enterprises
7. Realization of goods by retail enterprises
8. Realization of materials, packing [literally, "tare"], and other items of material value
9. Release of products by delivery to enterprises of the same trust

The state revenue inspector must compare the data on the turnover by realization of goods, obtained from the turnover balance, with the data of the turnover records (oborotnyye vedomosti) of the corresponding balance account. If there are no discrepancies the inspector proceeds to check the turnover record, comparing it with the analytic accounting cards, the totals of which are entered in the corresponding turnover records.

After making sure that the data examined, recorded in the turnover records, checks completely, the inspector may proceed to the selective checking of original documents (bookkeeping entries) recorded on the analytic accounting cards.

In this case it is first necessary to check by the original documents those bookkeeping entries recorded on analytic accounting cards which classify turnover as not subject to tax in this particular enterprise because exempt from tax, or because the tax is levied on the purchaser. This is necessary so that the inspector can ascertain that exemption of such turnover is correct.

Then it is necessary to check the original documents with the bookkeeping entries recorded on the analytic accounting cards on which the account for the taxable turnover is kept, in order to establish that the various entries are correct. Here it is necessary to keep in mind that for each kind or category of goods subject to a different tax rate, an account on a separate card must be opened.

The state revenue inspector cannot limit himself to the checking of the correctness of entries on analytic accounting cards dealing only with minimum turnover-tax rates. The checking of the correctness of entries must be performed for those dealing with maximum turnover-tax rates as well.

As we know, all the goods of an enterprise's own production or procurement realized outside the industry, including by sale to the workers and employees of the enterprise, as well as goods for its own capital construction, for the communal economy, and for the public dining-room enterprises and other enterprises not connected with production, must be entered in account of the balance dealing with the realization or the release (otpusk) of goods.

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However, in practice it happens that this regulation is violated by individual enterprises. There are cases when the realization or release of separate lots of goods are not shown in the accounts of the balance dealing with realization, but are concealed by writing off the goods from the accounts of the balance for the finished goods and transferring them to the accounts for settlements, with debtors and creditors, with persons accountable for expenditures, and with workers and employees, or simply through cash transactions (petty "realization" and releases of goods).

In order to ensure the levy of a turnover tax on all goods realized or released but for some reason not entered in the account of realization, the state revenue inspector must check those operations and bookkeeping entries by which the accounts for finished products may be made to correspond with the accounts of the balance showing the settlement of accounts. If deliberate concealment of taxable turnover with the purpose of tax evasion is discovered, it is necessary to draw up a separate document for the prosecution of the guilty parties. In such cases the turnover tax is exacted under established regulations.

In the process of the documentary checking of the tax report it is necessary to check the condition of the accounts of the balance for "account settlements with the budget for the turnover tax," because data given by this account often do not coincide with the turnover-tax reports presented by the enterprise to the financial agency.

After completion of the documentary checking of a tax report the state revenue inspector prepares a statement (akt) of inspection. In this document, besides accounting data pertaining to the calculation of turnover tax, and the conclusions relating thereto, it is necessary to include a statement as to how the plan of production and of realization of goods has been performed; furthermore, it is necessary to describe the state of goods left on hand as compared with the standard; to show the amount of embezzlements and thefts; to point out, in necessary cases of mismanagement in storage or realization of goods; to record whether the bills for unloaded goods are drawn in time and whether they are presented for payment to the Gosbank; to show the state of indebtedness and the measures undertaken for its liquidation; to show how the enterprise meets its obligations to the state budget; and to determine the quality of preparation and punctuality of presentation of turnover-tax reports to the financial agency (the correctness of the setting of prices and turnover-tax rates, and of the determination of the taxable and nontaxable turnover; the mistakes and errors in the calculation of the tax; the delays in the presentation of the report, etc.).

The state revenue inspector must make suggestions for the elimination of the shortages and infractions discovered.

The statement and a copy of it are signed by the state revenue inspector and by the director and the chief accountant of the enterprise. One copy is transmitted to the enterprise and signed for by its chief accountant; the other is delivered, the same day or not later than the next day, to the director of the financial agency or to the senior state revenue inspector, for examination and transmittal to the accounting department of State Revenue and entry of the appropriate records in the individual account of the paying enterprise.

In every case when the statement of inspection contains data showing faulty operations, or evidence of important infractions of existing regulations for the calculation and payment of the turnover tax,

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the financial agency is obliged to notify its superior economic agency, in order that measures may be taken for the improvement of the work of the enterprise. When necessary the financial agency reports the results of the inspection to the local supervising organization, for an immediate elimination of the infractions disclosed.

On checking the turnover-tax report for the next month, the inspector must check how the enterprise carried out the suggestions made at the time of the previous checking.

Such are, basically, the principles of checking the turnover-tax reports of enterprises. Improvement in the quality of the turnover-tax reports will greatly depend on how widely the financial agencies arrange for the sharing of experience in this most important work.

The financial agencies of the republic, the kray, the oblast', or the city must disseminate as widely as possible the experience acquired by the best state revenue inspectors for checking the turnover-tax reports, and by means of concrete examples raise the level of practical knowledge of the young state revenue inspectors.

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